

Thrift Savings Plan

DEATH BENEFITS

Information
for Participants
and Beneficiaries

June 2008

TSPBK31
PREVIOUS EDITIONS OBSOLETE

TSP Web Site

www.tsp.gov

ThriftLine

1-TSP-YOU-FRST

(1-877-968-3778)

(Toll free from the United States
and Canada)

All Other International Callers

404-233-4400

(Not toll free)

TDD

1-TSP-THRIFT5

(1-877-847-4385)

(Toll free)

References for Participants

- Form TSP-3,* Designation of Beneficiary
- 5 C.F.R. Section 1651.2 (a) — order of precedence
- Tax notice, “Important Tax Information About Thrift Savings Plan Death Benefit Payments”

* For uniformed services participants, the -U- designated version of TSP forms should be used (e.g., Form TSP-U-3).

Materials for Beneficiaries

- Form TSP-17,* Information Relating to Deceased Participant
- Tax notice, “Important Tax Information About Thrift Savings Plan Death Benefit Payments”
- Form TSP-13-S-D,* Spouse's Election of Payment Method for Death Benefit
- Form TSP-81,* Death Benefit Election for a Beneficiary Other Than a Spouse
- Change of Address for a TSP Beneficiary form

* For uniformed services participants, the -U- designated version of TSP forms should be used (e.g., Form TSP-U-17).

TSP Death Benefits:

The Participant

As a participant in the Thrift Savings Plan (TSP), you will likely accumulate a sizeable amount of money in your TSP account over the years. One of the things you need to think about **now** is “Who will get the money in my account if I die while my account is still open?” This may be an uncomfortable question, but it is very important not to put off decisions regarding who should get your money. You need to take the time to ensure that your money goes where you want. You **cannot** rely on your will or a separation agreement, property settlement agreement, or court order to specify who will inherit your TSP account, because the TSP **will not use** any of these documents to distribute your TSP account.

With that in mind, let’s start by figuring out what you need to do right now. First, whom do you want to receive the money in your TSP account?

Designating Beneficiaries

It may help you to know that if you do not file a Designation of Beneficiary (Form TSP-3) for your TSP account, in the event of your death the decision will be made for you. Your account will be distributed according to the order of precedence required by law.

Order of Precedence. If you did not file a valid Designation of Beneficiary on or before the date of your death, your entire account will be distributed as follows:

- To your widow or widower;

- If none, to your child or children equally, and to descendants of deceased children by representation;*
- If none, to your parents equally or to the surviving parent; **
- If none, to the executor or administrator of your estate;
- If none, to your next of kin who is entitled to your estate under the laws of the state in which you resided at the time of your death.

Designation of Beneficiary. If you do not want your account distributed according to the order of precedence, you will have to fill out the Designation of Beneficiary (Form TSP-3) and mail it to the TSP at the address on the form. You can download Form TSP-3 from the Forms & Publications section of the TSP Web site, or, if you are still in Federal service or the uniformed services, you can obtain it from your agency or your service. The complete and valid form must be received by the TSP on or before the date of your death.

If you have both a civilian and a uniformed services account, you must make a separate beneficiary designation for each account.

* In this order of precedence, a child includes a natural child (even if the child was born out of wedlock) and a child adopted by the participant; it does not include a stepchild or a foster child who was not adopted. Note: If the participant’s natural child was adopted by someone other than the participant’s spouse, that child is not entitled to a share of the participant’s TSP account.

“By representation” means that if a child of the participant dies before the participant dies, that child’s share will be divided equally among his or her children.

** A parent does not include a stepparent unless the stepparent adopted the participant.

The TSP Designation of Beneficiary form gives you flexibility and control over who will receive your account in case of your death. It allows you to choose one or more beneficiaries without regard to the order of precedence, and to designate one or more contingent beneficiaries in case the primary beneficiary(ies) dies before you do. A beneficiary can be any person, corporation, trust, or legal entity (including a foundation or charity), or your estate. Detailed instructions and examples accompany the form; be sure to read them carefully before you fill it out.

Reviewing Your Beneficiaries. If you file a Designation of Beneficiary form, it is a good idea to review how you have designated your beneficiaries from time to time — particularly when your life situation changes, for example, by marriage, divorce, the birth or adoption of a child, or the death of a beneficiary.

By law, the TSP must pay your properly designated beneficiary under all circumstances. For example, if you designated your spouse as your beneficiary, your TSP account must be paid to the spouse designated on your beneficiary form, *even if you are separated or divorced from that spouse or have remarried*. This is true even if the spouse you designated gave up all rights to your TSP account. Consequently, if your life situation changes, you may want to file a new Designation of Beneficiary form that cancels or changes your current beneficiary designation.

If any of your beneficiaries change their addresses or other identifying information, please provide an update to the TSP so that we can locate those beneficiaries after your death.

To cancel or change your beneficiary designation, or to make any changes to the information on the form, submit a new Designation of Beneficiary form to the TSP. A properly completed and submitted Designation of Beneficiary form

will *automatically cancel* any previous Designation of Beneficiary forms for your TSP account.

When the TSP receives a new Designation of Beneficiary form from you, we will send you a confirmation notice showing the primary beneficiaries you have designated.

Your quarterly TSP participant statement will show the date you signed your most recent Designation of Beneficiary. Your annual TSP participant statement will display your primary beneficiaries.

Remember that a will, prenuptial agreement, separation agreement, property settlement agreement, or court order **will not** override either Form TSP-3 or the order of precedence.

Taxes on Death Benefit Payments. When you designate your beneficiaries for your TSP account, you should be aware of the tax consequences to them in the event of your death. We suggest you read the tax notice "Important Tax Information About Thrift Savings Plan Death Benefit Payments." The information therein may be helpful in developing instructions for your spouse, executor, or other person so he or she knows what to expect.

Other Information

Agency Automatic (1%) Contributions. If you are a FERS employee and you die before separating from service, any non-vested Agency Automatic (1%) Contributions in your account will immediately become vested.

Loans. If you die with a TSP loan or loans outstanding, your account cannot be distributed until the outstanding amount has been declared a taxable distribution. Your estate or survivors cannot repay the loan. The loan will

be declared as taxable income to your estate, not to your beneficiaries.

Court Order. If there is a court order against your TSP account when you die, the court order must be resolved before any payments can be made to your beneficiaries.

Withdrawal/Loan Requests. If you die after submitting a loan or withdrawal request (e.g., Form TSP-20, TSP-70, or TSP-75), the TSP will not process the request if we learn of your death. Instead, the TSP will distribute your account according to your Designation of Beneficiary form, or, in the absence of a Designation of Beneficiary form, according to the order of precedence outlined on pages 1-P and 2-P. (See the special rule in "Annuity Purchase" below.)

If the request has already been processed, the payment will stand and the money cannot be returned.

Annuity Purchase. If you separate from service and submit a Request for Full Withdrawal requesting an annuity, and you die **before** annuity payments begin, the amount used to purchase the annuity will be returned to the TSP. The TSP will, if possible, distribute this money consistent with your annuity beneficiary designation.

See the chart on pages 6-P and 7-P for more information regarding these rules.

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Death Benefit Payments After Request for Annuity

If the participant dies after requesting, but before receiving, a:	The funds will be paid:
Single life annuity with no cash refund or 10-year certain feature.	According to TSP-3 or order of precedence, as applicable.
Single life annuity with a cash refund or 10-year certain feature.	To the beneficiary named on the annuity portion of the withdrawal request.
Single life annuity with a cash refund or 10-year certain feature, but the beneficiary to the annuity portion of the withdrawal dies before the participant.	According to TSP-3 or order of precedence, as applicable.
Joint life annuity and the participant dies before the joint life annuitant.	To the joint life annuitant.
Joint life annuity, but the joint life annuitant dies before the participant.	According to TSP-3 or order of precedence, as applicable.
Joint life annuity with cash refund and the participant dies before the joint life annuitant.	To the joint life annuitant.
Joint life annuity with cash refund and the joint life annuitant dies before the participant.	To the beneficiary named on the annuity portion of the withdrawal request.
Joint life annuity with cash refund and the joint life annuitant and the beneficiary both die before the participant.	According to TSP-3 or order of precedence, as applicable.

TSP Death Benefits:

The Beneficiary(ies)

If you are the survivor of a deceased participant, this is no doubt a very difficult time for you. We have written this part of the booklet to explain TSP death benefits, and to make the process of applying for them as easy as possible.

Notifying the TSP

If a participant dies while he or she is still in Federal service, the participant's personnel or payroll office will report the participant's death to the TSP. If the participant dies after separating from service, his or her next of kin, legal representative, or other responsible person must report the participant's death to the TSP.

In either case, however, to begin the process, the participant's survivor(s) must submit Form TSP-17, Information Relating to Deceased Participant, to the TSP, along with a copy of the participant's certified death certificate. All sections of Form TSP-17 should be completed. This will inform the TSP (or confirm to the TSP) that the participant is deceased, and will provide information that will help the TSP locate the participant's potential beneficiaries. Form TSP-17 can be downloaded and printed from the TSP Web site, under Forms & Publications; it is also available from the participant's agency or service personnel office or the TSP.

Determining Beneficiaries

Form TSP-3. If the participant had a valid Designation of Beneficiary (Form TSP-3) on file with the TSP on the date of his or her death, his or her TSP account will be distributed according to that designation. Otherwise, the participant's account will be paid out according to the order

of precedence required by law. (In the case of an annuity, see pages 6-P and 7-P.)

Order of Precedence. If there is no designation on file, the participant's entire TSP account will be distributed as follows:

- To his or her widow or widower;
- If none, to his or her child or children equally, and to descendants of deceased children by representation;*
- If none, to his or her parents equally or to the surviving parent;**
- If none, to the executor or administrator of his or her estate;
- If none, to his or her next of kin who is entitled to the participant's estate under the laws of the state in which the participant resided at the time of his or her death.

A will, prenuptial agreement, separation agreement, property settlement agreement, or court order **will not** override either Form TSP-3 or the order of precedence.

Once the TSP has determined who the beneficiary or beneficiaries are, the TSP will then mail them information about receiving benefits, including Form TSP-13-S-D, Spouse's Election of Payment Method for Death Benefit, or Form TSP-81, Death Benefit Election for a Beneficiary Other Than a Spouse (as appropriate), IRS Form W-4P, Withholding Certificate for Pension

* In this order of precedence, a child includes a natural child (even if the child was born out of wedlock) and a child adopted by the participant; it does not include a stepchild or a foster child who was not adopted. Note: If the participant's natural child was adopted by someone other than the participant's spouse, that child is not entitled to a share of the participant's TSP account. "By representation" means that if a child of the participant dies before the participant dies, that child's share will be divided equally among his or her children.

** A parent does not include a stepparent unless the stepparent adopted the participant.

or Annuity Payments, and a tax notice, "Important Tax Information About Thrift Saving Plan Death Benefit Payments," explaining their tax obligations in detail.

Receiving Payment

Timing. Payments to beneficiaries can take several months from the time the TSP is notified of the participant's death. If there is an outstanding loan or a court order against the account, it must first be resolved (see page 5-B). Beneficiaries must be located, their Social Security numbers (or Employer Identification Numbers for estates or trusts) must be obtained and verified, and their addresses must be obtained or confirmed.

Payments are usually made 60 days after the beneficiary determination package is sent from the TSP or after the TSP has received all of the information it needs to make the payment (e.g., an Election of Payment form), whichever is sooner. Beneficiaries can also request an accelerated payment by submitting the Waiver of Tax Notice Period that is in the beneficiary determination package.

A beneficiary cannot leave the money in the participant's TSP account. Once a payment is made, the funds cannot be returned. (See 5 C.F.R. § 1651.14(i).)

Change of Address. If you are notified that you are a beneficiary, make sure to keep the TSP posted about any change in your address. You can use the Change of Address for a TSP Beneficiary form, which you will receive from the TSP, or you may write to the TSP. Be sure to include your name and Social Security number (SSN) in your letter, as well as the name and SSN of the deceased participant.

Taxes. The tax consequences of receiving a TSP death benefit payment may be severe. Read the tax notice "Important Tax Information About Thrift Savings Plan Death Benefit Payments." A payment made directly to the spouse of a deceased participant is subject to 20 percent

mandatory Federal income tax withholding. A spouse can avoid the mandatory withholding and tax liability by having the TSP transfer all or part of the death benefit payment directly to a traditional Individual Retirement Account (IRA) or eligible employer plan (including the spouse's own TSP account, so long as the spouse is not receiving monthly payments from that account). If you are the spouse-beneficiary of a TSP participant, you may also be able to transfer, or roll over, the funds to a Roth IRA if eligible, but keep in mind that you will have to pay taxes on the full amount transferred or rolled over to the Roth IRA. (See the TSP tax notice "Important Tax Information About Thrift Savings Plan Death Benefit Payments" for the definition, rules, and restrictions for a Roth IRA. You may also want to seek the counsel of a tax advisor.) Complete a Spouse's Election of Payment Method for Death Benefit form to transfer your death benefit payment to an IRA or eligible employer plan or to request that it be deposited directly to your checking or savings account.

Payments made to beneficiaries other than the participant's spouse are subject to 10 percent Federal income tax withholding. However, a beneficiary who is not a surviving spouse can avoid this withholding and reduce the tax liability by requesting that the TSP transfer all or part of the payment directly to an "inherited" IRA. An inherited IRA is established specifically for the purpose of transferring money inherited from a plan such as the TSP. Inherited IRAs may provide significant tax benefits because their required distributions can generally be spread across the lifetime of the beneficiary. However, the rules governing inherited IRAs are complicated, and there are restrictions. So *before* you make a decision to transfer money from the TSP into such an IRA, we strongly recommend that you discuss the details of your transfer with your tax advisor or your IRA provider. You may not roll over a TSP death benefit paid directly to you into any other type of IRA or plan.

To transfer a death benefit payment to an inherited IRA or to request that it be deposited directly into your checking or savings account, use a Death Benefit Election for a Beneficiary Other Than a Spouse form.

For more information, see the tax notice "Important Tax Information About Thrift Savings Plan Death Benefit Payments."

Other Information

Court Orders. If there was a court order against the participant's TSP account when he or she died, the court order must be resolved before any death benefit payments can be made to beneficiaries.

Outstanding Loans. If the participant had a TSP loan outstanding at the time of his or her death, no payment will be made to any beneficiary until the outstanding loan has been declared a taxable distribution and closed. The outstanding principal plus any accrued interest will be reported to the IRS as a taxable distribution to the participant's estate. It will not be reported as income to the beneficiaries. The outstanding loan balance **cannot** be repaid.

Withdrawal/Loan Requests. If the participant requested a loan or withdrawal, the TSP will not process that request if we learn, before the payment is made, that the participant has died. Instead, the TSP will distribute the account according to the participant's Designation of Beneficiary form, or, if none is on file, according to the order of precedence outlined on page 2-B. (See the special rule in "Annuity Purchase" below.)

If the TSP has already made the payment, the money cannot be returned to the TSP.

Annuity Purchase. If the participant separated from service and submitted a Request for Full Withdrawal requesting an annuity, and he or she died **before** the annuity payments began, the money used to purchase the annuity will be returned to the TSP. The TSP will distribute it according to the chart on pages 6-P and 7-P.